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October 27, 2004

Mrs. Beth O'Donnell  
Kentucky Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

**RECEIVED**

OCT 29 2004

PUBLIC SERVICE  
COMMISSION

**RE: Cost Justification  
Application / Tarriff Request  
Gathering Line / Farm Tap Service  
KRS 278.485  
Clay, Whitley, Knox, Laurel County, KY**

Case 2004-00436

Dear Mrs. O'Donnell:

We are submitting an application for modification of tariff for natural gas being supplied to residential customers in Clay, Whitley, Knox and Laurel Counties, Kentucky. Per our conversation with Ms. Dawn McGee on October 6, 2004, we are providing below a cost justification. Below are itemized the changes we plan to make and the basis for doing so. Footnotes provide detail of various items and immediately follow this letter.

**Gas Price - \$12.00/mcf (flat rate)**

K. Petroleum, Inc assumed utilization of 7 mcf/mo/customer (84 mcf/yr), (based on information from our monthly readings), and 45 gas customers.

Gas Price Calculation

<u>Description</u>	<u>Amount</u>
12 month NYMEX Strip	\$7.12/dth
Contract Differential	+ .15/dth
	<u>\$7.27/dth</u>

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Price To Be Received by K. Petroleum based on 1250 btu/cf	<u>x1.25</u> \$9.09/mcf
Well Operator <sup>1</sup>	1.88/mcf
Administrative Personnel <sup>2</sup>	.95
Methanol and Supplies <sup>3</sup>	.37
Mileage <sup>4</sup>	<u>.16</u>
<b>TOTAL</b>	<b>\$12.45/mcf</b>

**Minimum Monthly Charge - \$10.00/month**

We assumed that even if no gas was sold in a particular month, K. Petroleum, Inc. would still incur a cost of about \$23.75/customer/month (explained on attachment sheet) and we would try to recoup approximately 50% of this.

**Tap Fee - \$150**

Estimated cost to tap our gathering system, install saddle, nipple and first valve is greater than \$150 as outlined below, but 807 KAR 5:026 Section 9. (1) limits the charge to \$150.

Material Cost: Saddle, Nipple, and First Valve	\$ 90.00
Meter	65.00
Labor for Installation (2 men – 2 hr x \$17.59/hr.)	70.36
Mileage – 10 miles x \$.375/mile	3.75
Administrative Time - .5 hr x \$20.00	<u>10.00</u>
<b>TOTAL</b>	<b>\$ 239.11</b>

**Cash Deposit - \$165**

If a customer uses an average of 7 mcf/mo at the proposed tariff rate of \$12.00/mcf, the monthly bill would be \$84.00. We will be billing sometime after the end of each month and will not take note unless they are 20 days past the billing date, so they could have used gas for two months before we realize they are not going to pay. Based on the average, gas used in two months would be \$168.00 (i.e. 2 x \$84/month). We have rounded this to \$165 to secure payment in the event of a default on payment.

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**Reconnect/Turn-on Charge - \$25**

If a customer is in default payment and a reasonable effort to induce payment has been made, service may be discontinued. This will require a visit by the well operator to shut the valve. If the customer makes payment of the past due amounts and a turn-on charge, service may be re-established. 807KAR5:026 Section 7. (1) allows a turn-on charge of \$25. Our estimate, as shown below, exceeds that, but we are limited to \$25.

Well Operator Time: Shut off - .5 hr x \$17.59/hr.	\$ 8.80
Turn On - .5 hr x \$17.59/hr	8.80
Mileage - 10 miles @ \$.375/mile	3.75
Administrative Time: .5 hr x \$20.00	<u>10.00</u>
TOTAL	\$ 31.35

We respectfully request your approval of our application and associated rates.

Sincerely,

K. Petroleum, Inc.



Jam Khorrami  
President

Attachment

FOOTNOTES

1. Well Operator Cost:

Base Pay	\$13.34/hr
Soc. Sec./Medicare (Co. Portion)	1.02/hr
Worker's Comp. Ins. (4%)	.53/hr
Health Insurance	2.19/hr
Vacation	<u>.51/hr</u>
TOTAL	\$17.59/hr

Assume:

Meter Reading - 20 min/customer/mo x 12 mos. =4 hrs/yr/customer

Callouts, mowing, maintenance, etc. =5 hrs/yr/customer

Total Hours =9 hrs

9 hrs x \$17.59/hr = \$158.31/customer/year

\$158.31 / 84 mcf/yr (gas used by customer per year) = \$1.88/mcf

2. Administrative Personnel Cost

Monthly billing charge (accounting firm) - 15 hours	<u>\$300/month</u>
TOTAL	\$20.00/hr

Assume:

Invoicing, Payment Collection, Postage & Phone Calls - 20 min/customer/mo x 12 = 4hr/yr/cust.

4 hrs x \$20.00/hr = \$80.00/yr/customer

\$80.00 / 84 mcf/yr (gas used by customer per year) = \$.95/mcf

3. Methanol and Supplies

Methanol is \$5 per gallon. We estimated 5 gallons per year for tanks through which gas flows plus another \$5 for additional supplies = \$30/yr/customer.

\$30 / 84 mcf/yr (gas used by customer per year) = \$.37/mcf

4. Mileage for Well Operator

Estimated 2 days of meter reading per month at 50 miles per day and 10 miles per year per customer for callouts.

Meter Reading - 50 miles/day x 2 days x 12 mos  
Callouts - 10 miles/yr x 45 customers  
TOTAL

=1200 miles/yr  
=450 miles/yr  
=1650 miles/yr

1650 miles/yr x \$.375/mi (IRS rate) = \$618.75 total

\$618.75/yr / 45 customers=\$13.75/yr/cust. / 84 mcf/yr/cust.

=\$.16/mcf
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6. Minimum Monthly Charge

Cost  
Per Customer/Month

Well Operator (see Footnote 1) \$158.31/yr / 12  
Adm. Personnel (see Footnote 2) \$80.00/yr / 12  
Methanol and Supplies (see Footnote 3) \$30/yr / 12  
Mileage (see Footnote 4) \$13.75/yr / 12  
TOTAL

\$13.19/mo  
6.66/mo  
2.50/mo  
1.15/mo  
\$23.50/mo/customer

50% x \$23.50/mo/customer =\$11.75

=\$10/month/customer
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